

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

January 28, 2009

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ALLOWABLE EX PARTE BRIEFING

REQUESTED BY CENTURYTEL, INC., AND EMBARQ CORPORATION - MERGER

**TRANSCRIPT OF
PROCEEDINGS**

VOLUME 1

BEFORE: John E. "Butch" HOWARD, *VICE CHAIRMAN*, PRESIDING; and COMMISSIONERS David A. WRIGHT, G. O'Neal HAMILTON, Swain E. WHITFIELD, Mignon L. CLYBURN, and Randy MITCHELL.

ADVISOR TO COMMISSION: Joseph Melchers, Esq.

STAFF: Charles L.A. Terreni, Chief Clerk; Jocelyn G. Boyd, Deputy Clerk; F. David Butler, Jr., Senior Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; Doug Pratt, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM-GNSC, Court Reporter; and Deborah Easterling, Hearing Room Assistant.

APPEARANCES:

SCOTT ELLIOTT, ESQUIRE, along with *STEVE PARROTT, KEVIN GRIMES, SUSAN MASTERTON, ESQUIRE*, and *CHERYL SWEITZER, PRESENTERS*, representing CenturyTel and Embarq

C. LESSIE HAMMONDS, ESQUIRE, representing Office of Regulatory Staff

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

101 EXECUTIVE CENTER DRIVE
COLUMBIA, SC 29210

POST OFFICE BOX 11649
COLUMBIA, SC 29211

WWW.PSC.SC.GOV

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P R O C E E D I N G S

VICE CHAIRMAN HOWARD: Be seated. I'd like call this briefing hearing to order, and we welcome the opportunity to listen to these gentlemen and Embarq to tell us about the merger. It's a distinguished-looking group at the front table, so I'll turn it over, I guess, to Steve Parrott?

MR. PARROTT: Steve Parrott, yes. All I can tell you, Commissioners, is looks can be deceiving, okay?

[Laughter]

MR. PARROTT: Commissioners, we appreciate the opportunity to come here today and meet with you in this ex parte meeting, to talk about something that we at CenturyTel and Embarq are quite excited about, and that's a merger of our two companies that we announced back on October 27th. What I'd like to do is to introduce to each of you the group that is with me today, so you know who they are and what they represent, and then I'm going to briefly just tell you about the materials that you will find in the packet before you. Before you become too alarmed, I will tell you that we're not going to go through every page of what you see in that packet. Some of that is for your follow-up

1 information only, but we'll be glad to take
2 questions on any of that as we proceed.

3 With me today -- I'll introduce myself first.
4 I'm Steve Parrott. I'm the senior state executive
5 for Embarq for the Carolinas Region. I have
6 responsibility for South Carolina's external
7 affairs organization.

8 Kevin Grimes, to my left, is government
9 relations manager for Century Telephone, and is my
10 new best friend.

11 To my right is Susan Masterton. Susan is
12 senior counsel for Embarq, and handles our
13 regulatory work here on the legal side in South
14 Carolina.

15 Scott Elliott, who is no stranger to the
16 Commission, is outside counsel for Embarq here in
17 South Carolina. And Cheryl Sweitzer, who you may
18 also recognize, is our manager of regulatory
19 affairs at Embarq for South Carolina. So that's
20 the group we have with us today.

21 Again, we appreciate this opportunity to come
22 here and tell you about the merger. In the packet
23 that you have before you, on the left-hand side you
24 will find a media release that was just issued
25 yesterday. Yesterday, I'm pleased to say that

1 there were shareholder meetings held in Louisiana
2 and also out in Kansas, for the shareholders of
3 CenturyTel and shareholders of Embarq, and they
4 have overwhelmingly approved the merger. And so
5 the media release that you find in the packet
6 basically announces the results of that vote and
7 talks a little bit about our excitement over the
8 combination of the two companies, now that the
9 shareholders have approved it.

10 On the right-hand side you will find a one-
11 page briefing document that I will be using and
12 we'll be speaking from, that really gives a high
13 level of why we think this merger is in the best
14 interests of our customers, employees, and
15 communities. You also will have a multipage
16 PowerPoint presentation entitled "A Win for
17 Customers, Employees, and Communities." I'll be
18 referring to a map that's contained in that, in my
19 presentation. We won't be going through all of
20 that, but it's good information and describes the
21 merger.

22 Next, you have a one-page organizational-
23 structure diagram because we want you to understand
24 how the two companies are situated premerger,
25 during the merger, and what the corporation will

1 look like postmerger. And then the last document
2 is a more detailed narrative describing the two
3 companies and the merger transaction.

4 So we feel like what we brought is pertinent
5 information that really gives you some good
6 information, detailed information, on again why we
7 think this is a great move, not only for our
8 shareholders but more importantly for the customers
9 of the two companies.

10 With that, I want to turn it over to Kevin
11 Grimes from Century Telephone to tell you a little
12 bit about Century Telephone.

13 **MR. GRIMES:** Good morning. Again, my name is
14 Kevin Grimes. I'm the government relations manager
15 for CenturyTel. I have responsibilities for
16 Alabama and Georgia and the Carolinas. I'd like to
17 take the opportunity to thank you for taking the
18 time today to meet with us.

19 A little bit about CenturyTel. CenturyTel
20 started as a small independent in Louisiana and
21 through acquisitions has grown to cover 25 states
22 with nearly 2 million access lines, about 630,000
23 broadband customers, and about 105,000 video
24 customers. Currently, we stand at about 87 percent
25 broadband availability nationwide.

1 We are very excited about this -- about the
2 merger. We feel like it's bringing two companies
3 together that are focused on the same thing, that's
4 providing cutting-edge products and services to
5 rural America. We also feel like these two
6 companies are committed to and will strive to be
7 the broadband provider -- leading broadband
8 provider in the markets we serve.

9 Postmerger, the two companies will have the
10 combined -- will be in a combined 33 states, with
11 nearly 8 million access lines, roughly 2 million
12 broadband customers, and nearly 1/2 million video
13 subscribers.

14 **MR. PARROTT:** Okay. Kevin, thank you. If
15 you'll refer to the first document in your packet,
16 with the heading of CenturyTel and Embarq on it,
17 "Five Reasons the Merger...is a Win for Customers,
18 Employees, and Communities" I'll speak to that just
19 briefly, if I could.

20 The thing -- again, we're excited for a number
21 of reasons, but clearly one of those is the fact
22 that we, Embarq, are merging with a company,
23 Century Telephone, that if you look at our markets,
24 our focal areas are rural markets. It's not a
25 merger between some large urban provider and a

1 rural provider; it's really a merger of two midsize
2 companies that focus on rural markets. The other
3 thing I would say to you, I know when we were in an
4 ex parte meeting with the Commission back I believe
5 in 2005 talking about the spinoff of Embarq from
6 Sprint, again, we talked about the focus of Embarq
7 -- and especially here in South Carolina -- on
8 rural markets, and this is pretty much a
9 continuation of that same market strategy by our
10 company and certainly by Century Telephone.

11 It creates an industry-leading communications
12 provider. While we focus on rural markets, we're
13 really not a small entity. Even Embarq standalone
14 was the fourth-largest local limitations company in
15 the country. You know, again, a very large entity;
16 we're the largest non-Bell-company communications
17 provider in the country. So when you bring these
18 two companies together, hopefully that will even
19 further solidify our position as being the fourth
20 largest provider in the country. So from the
21 standpoint of financial strength and the ability to
22 serve our customers, bringing these two entities
23 together will be positive.

24 As Kevin alluded to, we're going to be
25 combined in 33 states with 8 million access lines,

1 2 million broadband customers, 400,000 video
2 subscribers. And if you will refer in that next
3 document -- this is the PowerPoint presentation
4 that looks like this [indicating]; it's got a blue
5 cover on it -- I would refer you over to, I believe
6 it's on page four, is a map of the United States,
7 and we think this provides a very good visual of
8 the two companies and where we operate today
9 individually and where we will operate
10 collectively.

11 As you can see, there's quite a bit of
12 dispersion here. We're down the East Coast, the
13 Mid-Atlantic area, Florida, all the way across the
14 Midwest, and then into the Northwest area. The
15 good news, too, about this merger is that there are
16 not significant overlaps. Normally when you go
17 through a merger, and especially in South Carolina
18 if you had two large entities maybe coming
19 together, you might be concerned about, you know,
20 the implications on jobs and the economy and those
21 types of things. Again, the good news here is, in
22 South Carolina, Embarq is serving 19 communities,
23 87,000 access lines here in South Carolina, but
24 there's not an overlap. There are two certificated
25 entities that CenturyTel has here in South

1 Carolina, but currently are not serving any
2 customers, and CenturyTel does not currently have
3 any employees located in South Carolina. But this
4 map, again, will show you that if you were to place
5 the large urban centers on here across the country,
6 we tend to be just on the fringe area of those
7 major metropolitan areas, which actually has been
8 good for us from a growth perspective, but we
9 certainly wouldn't consider ourselves a large urban
10 provider.

11 So again, the first reason, it will be, we
12 believe, a leading communications provider and the
13 largest communications provider to rural America.
14 It expands a suite of products and solutions for
15 our communities. Another good part of this is
16 CenturyTel brings to this merger some technologies
17 that Embarq has considered, and in some cases were
18 just moving forward on, and CenturyTel is already
19 providing those technologies and those services.
20 So we are excited about the prospects for our
21 customers and our communities in the area of video,
22 certainly broadband, and the growth products that
23 our customers are demanding. We believe it
24 enhances, actually enhances our employees' options.
25 By bringing these two companies together, you know,

1 certainly you are going to see some reduction in
2 corporate overheads. And, you know, you're going
3 to see also a consolidation where we might have
4 duplicate efforts, but again, most of those would
5 be, as I said, at the corporate center level in the
6 corporate support functions. We believe clearly
7 the merger is going to bring operational
8 efficiencies for both of these companies, as well.

9 From a headquarters standpoint, Embarq is
10 currently headquartered in Overland Park, Kansas.
11 After this merger, the corporate headquarters will
12 be in Monroe, Louisiana, which is Century
13 Telephone's corporate headquarters. So we will be
14 seeing that move. But we will still have some
15 presence in Overland Park, but the headquarters
16 will be in Monroe, Louisiana.

17 Fourth benefit, it builds greater financial
18 strength and stability. If you look in what I'll
19 call kind of the mid-cap area of local
20 communications companies, you find Embarq, you find
21 Century Telephone, Frontier, Windstream, Fairpoint.
22 You know, there's been a lot of discussion in
23 recent years about convergence and the need to
24 converge to survive and to succeed. The good
25 thing, that our companies are the first to merge,

1 and why we're excited about that is these two
2 companies, Century Telephone and Embarq, are the
3 ones who have investment-grade rated debt. This is
4 something to be said for that in this competitive
5 and -- and this competitive environment and this
6 economy, that you're talking about two carriers
7 coming together that even individually were very
8 strong financially and now bringing those together.
9 We fully expect that we will continue to have that
10 investment-grade rating, which will bode well for
11 our corporation but bode well for our customers
12 because of the reduced debt cost.

13 And fifth, we believe it pulls together a very
14 experienced leadership team. We have already
15 announced the executive layer, the executive
16 leadership team for the merged company. It will be
17 led by Glen Post, who is currently the CEO for
18 Century Telephone. Tom Gerke, who is the Embarq
19 CEO, is going to be vice chair of the corporation,
20 the executive vice chair. He also -- Tom Gerke,
21 our CEO, will have responsibility in the combined
22 company for the governmental, regulatory, and human
23 resource functions, and so we are excited about
24 that. Karen Puckett will be the chief operating
25 officer; Karen is currently in that capacity with

1 Century Telephone. And the chief financial officer
2 will be Stewart Ewing, who is also current CFO with
3 Century Telephone.

4 The board is a good mixture of expertise from
5 the two boards. And you see here it's comprised of
6 eight directors from Century Telephone and seven
7 directors from Embarq. The chairman of the board
8 for the new corporation is going to be Bill Owens,
9 who is currently the chairman for Embarq's board of
10 directors. So you see a blending of expertise from
11 both companies, which we think is certainly a
12 positive. And then Harvey Perry will continue in
13 his role as CenturyTel's nonexecutive vice chair.

14 So it's for those reasons that we believe this
15 is going to be good for our customers and
16 communities, and certainly creates opportunities as
17 well for our employees.

18 Moving on, if you look at the one-page sheet
19 that at the top is entitled "South Carolina
20 Organizational Structure Diagrams," I want to talk
21 about that, if I could, for just a few moments.
22 This will give you a good idea of how this merger
23 transaction is going to occur and why we believe
24 that it's transparent to our customers that are
25 currently served by Embarq here in South Carolina.

1 Premerger you have on your left Century Telephone
2 -- and this is specific to South Carolina. You see
3 the too certificated companies that I mentioned
4 before, Madison River Communications and Madison
5 River Communications LLC. You also see, under
6 Century Telephone -- and I know I mentioned to you
7 before that they are headquartered in Monroe,
8 Louisiana, so you'll notice a subsidiary company
9 here referred to as Cajun Acquisition Company.
10 Now, if you have any questions about that name,
11 I'll let you direct those questions to Kevin, okay?
12 But anyway, that's the subsidiary structure of
13 Century Telephone. For Embarq Corporation: United
14 Telephone Company of the Carolinas, which is our
15 ILEC operation here in South Carolina; Embarq
16 Communications, Inc., which is our IXC and long-
17 distance company and CLEC; and then Embarq Payphone
18 Services, Inc. That's how we're structured today,
19 two separate corporations, two separate subsidiary
20 structures.

21 During the merger, Cajun Acquisition Company
22 is going to be merging with Embarq Corporation,
23 which is currently the Embarq parent company, and
24 Embarq Corporation will be the surviving entity.
25 What you will see there is you still have United

1 Telephone Company of the Carolinas, the other
2 Embarq subsidiaries, the CenturyTel subsidiaries
3 that are not affected; it's really Cajun
4 Acquisition and Embarq Corporation. So looking
5 postmerger, you see that the new parent Corporation
6 will be Century Telephone, and then under Century
7 Telephone you'll have, again, Madison River, the
8 two existing CenturyTel subsidiaries here in South
9 Carolina, you will have Embarq Corporation, and
10 then you'll have the subsidiaries, United
11 Telephone, Embarq Communications, and Embarq
12 Payphone. So at this point we're not looking at
13 doing anything related to the subs. This is
14 clearly a transfer of control at the parent level,
15 and it involves CenturyTel specifically, but their
16 subsidiary, Cajun Acquisition, is actually the one
17 that would be merging with Embarq.

18 The last thing I would say here on this
19 particular slide -- and then I'm going to turn it
20 over to Susan -- as far as the transaction, the
21 transaction as of closing, and we're hoping to
22 close this merger late in the second quarter of
23 this year -- we're certainly making progress
24 towards that, as far as getting all the necessary
25 approvals at both the federal and the state level.

1 But that closing, the transaction will be that 1.37
2 shares of Century Telephone stock will be given for
3 every one share of Embarq stock, so 1.37 of Century
4 Telephone stock for one share of Embarq stock. And
5 you will see, based on when this was announced in
6 October, that the ownership from the stockholders'
7 standpoint, of the new corporation, would be 66
8 percent owned by premerger Embarq shareholders and
9 34 percent owned by premerger CenturyTel
10 stockholders. So there is a shift in the new
11 corporation as far as the equity and ownership.

12 With that, I'm going to turn it over to Susan,
13 who is going to speak to the statutory aspect of
14 the transaction.

15 **MS. MASTERTON:** Thanks, Steve. Good morning,
16 Commissioners. I appreciate the opportunity to
17 come and talk to you about this this morning.

18 We've included in the packet of your
19 information a document entitled Information
20 Regarding the Merger," and that's a fairly lengthy
21 document that describes in detail the transaction,
22 the parties, and the effect of the merger on South
23 Carolina. What I'm going to briefly focus on are
24 the legal and regulatory issues associated with the
25 merger.

1 At the back of that document are the two
2 statutes that are relevant to merger activity in
3 South Carolina, and under these statutes they
4 address transfer of property or operations of
5 telephone utilities, which are the certificated
6 companies in South Carolina. And as you heard
7 Steve describe, under this transaction with
8 CenturyTel and Embarq, the certificated companies
9 are going to remain unchanged. There's no effect
10 on the certificated companies; it's just a parent-
11 company-level transaction. So, as a result of
12 this, the South Carolina statutes don't require
13 formal approval by you all, of the merger. And
14 that's consistent with how you've handled other
15 parent-company-level transactions in the past, most
16 recently the AT&T/BellSouth merger, which was
17 pretty much the same type of parent-company-level
18 transaction as the Embarq and CenturyTel merger.

19 So since the regulated entities don't change,
20 the merger is going to be transparent to the
21 consumers in South Carolina. And the laws and
22 rules that apply to Embarq today will continue to
23 apply after the merger, as well as the Commission's
24 regulatory authority over Embarq today will be the
25 same after the merger goes through.

1 And I just wanted to point out that while the
2 merger will be transparent to the consumers,
3 they'll have very many benefits of it, as Steve has
4 gone through for you earlier in his presentation.

5 And that's what I had to say. I'm going to
6 turn it back over to Steve for some closing
7 remarks.

8 **MR. PARROTT:** Thank you, Susan. Another
9 aspect of that, too -- and she mentioned that it is
10 transparent to our customers here -- when we were
11 talking to you about the spinoff of Embarq, I know
12 we stressed the fact that none of the assets of
13 United Telephone Company of the Carolinas were
14 being pledged towards the debt of Embarq
15 Corporation. And again, if you look at the
16 structure of this merger, the same would be true
17 postmerger with Century Telephone. Those assets in
18 South Carolina are not pledged towards that
19 corporate debt either, so I think that's a good
20 aspect of this.

21 That's a high-level look at the merger and
22 hopefully gives you some insight as to why we're
23 excited about this combination of these two
24 companies. Again, it's nice sitting here -- I know
25 Kevin would agree with me -- for us to be the two

1 companies, the first two companies out of this mid-
2 cap sector, to bring our operations together, we
3 think is really a good move, and especially to take
4 the two stronger financial entities and bring those
5 together will bode well for our customers and
6 shareholders alike.

7 Even though Susan has mentioned the fact that,
8 you know, while this doesn't require formal
9 approval by this Commission, it's important to us
10 that we come here today to talk to you about the
11 merger, to inform you about the merger, to answer
12 questions from you regarding this merger. But also
13 what we want to do -- I mentioned the closing in
14 the latter part of the second quarter -- we want to
15 keep this Commission informed about the progress
16 we're making about combining these two companies.
17 So we appreciate the opportunity to be here, and at
18 this time if you have questions for any of us,
19 we'll be glad to address those.

20 **VICE CHAIRMAN HOWARD:** Commissioners, any
21 questions?

22 **COMMISSIONER HAMILTON:** Mr. Chairman.

23 **VICE CHAIRMAN HOWARD:** Commissioner Hamilton.

24 **COMMISSIONER HAMILTON:** Mr. Parrott, what do
25 you see for the future in South Carolina, the

1 merged operation that you have. I know we don't
2 have any visible evidence of Century at this time,
3 but do you plan any expansion in the area through
4 acquisition or future investment in infrastructure?
5 What do you see?

6 **MR. PARROTT:** I can't really speak to future
7 acquisitions specifically in South Carolina. You
8 know, at the parent level, you know, again, I'm
9 sure that much like all of the entities that are in
10 this industry are probably continuing to evaluate
11 opportunities, but I can't speak to any imminent
12 acquisitions or mergers here in South Carolina.

13 As far as the 19 communities where we do have
14 customers, we are currently offering bundled
15 services that includes voice, high-speed Internet
16 access, and video. On the video side, both Century
17 Telephone and Embarq have agreements with Dish
18 Network to provide the video component. The
19 exciting thing is the IPTV, which is this
20 technology I mentioned before that Century
21 Telephone already has in two locations. We are
22 kind of just on the verge of trialing that
23 technology, but hopefully this would accelerate our
24 abilities as a combined entity to pursue some of
25 those types of technologies.

1 **COMMISSIONER HAMILTON:** Thank you. Thank you,
2 very much.

3 **VICE CHAIRMAN HOWARD:** Commissioner Clyburn.

4 **COMMISSIONER CLYBURN:** Mr. Parrott, you made
5 mention of some streamlining, I think were your
6 exact words, more so at the corporate level. Can
7 you give any indicator, I guess -- that got my
8 attention, especially given some of the numbers
9 we've seen over the past -- well, over the past
10 couple of years, especially over the last 48 hours
11 with some announcements. Can you give any
12 indicator as to what you anticipate in terms of
13 that streamlining?

14 **MR. PARROTT:** There hasn't -- Kevin, you can
15 speak to it, as well. There haven't been any
16 numbers announced in terms of what the expectations
17 were at the corporate level or, you know, what
18 represents duplicate functions. We know there are
19 some. And what we've told our employees as we are
20 working through this -- I mentioned we've announced
21 our executive layer. You know, hopefully we'll be
22 announcing the next layer of management sometime
23 next month, and we're keeping our employees posted
24 in that process, but there haven't been any
25 numbers. What I can speak to is, in South Carolina

1 where we have 151 employees, the majority of those
2 employees for us in South Carolina are basically
3 technicians, customer service, retail store,
4 engineering. Those are not functions that are
5 going to go away, because there is no overlap, as I
6 mentioned, with Century Telephone in this State, so
7 we wouldn't expect to see that 151 decline.
8 Whether that number might become larger, I can't
9 speak to, but we don't expect -- Kevin -- a
10 reduction in that.

11 **MR. GRIMES:** No, we don't expect to see a
12 reduction in force in South Carolina, like Steve
13 said. The employees that are here now will be
14 needed in the future. I think that you will see is
15 that both the companies already have corporate
16 structures, corporate functions already being
17 handled centrally for each location. I think
18 you'll see the majority of those -- the
19 streamlining, as you put it, will happen at that
20 level. But at this point it's still being
21 evaluated, and really until yesterday, until the
22 shareholder vote, there was only so far that they
23 could go in those evaluations.

24 **COMMISSIONER CLYBURN:** You made mention, when
25 we looked -- I guess that was page four when we

1 looked at the map, that one of the benefits to the
2 merger was very little overlap. I guess, looking
3 -- I think Commissioner Hamilton asked kind of --
4 well, I don't want to put words in his mouth, but
5 maybe on a Palmetto State footprint, I guess I'm
6 wondering if -- because there are some pockets.
7 There are a couple of isolated pockets, also. And
8 I guess I'm wondering if -- I don't know if it's
9 too soon to ask this question -- if there were any
10 expansion opportunities that you are pursuing that
11 would make sense -- I know your concentration is
12 rural.

13 **MR. PARROTT:** Right.

14 **COMMISSIONER CLYBURN:** -- that would make
15 sense to kind of almost, you know, bring those
16 colors, I guess, closer together, especially with
17 some of the -- I don't want to say outlying areas,
18 but you know, some of the pockets that --

19 **MR. PARROTT:** I know.

20 **COMMISSIONER CLYBURN:** -- are outside of your
21 current footprint.

22 **MR. PARROTT:** This may sound like a vague
23 answer, but I would say to you that we are always
24 open to possibilities and opportunities. I know
25 what you're referring to. I mean, when people ask

1 us about our footprint here in the State, you know,
2 it really is Lowcountry and then you look at
3 Greenwood and the surrounding area, and there's
4 some space in between. And from an operational
5 standpoint, that does create some challenges. But
6 again, I'm certain that we would be open to
7 opportunities. I've said before that South
8 Carolina -- and I'm not saying it to be patronizing
9 to the Commission -- South Carolina is a good
10 business environment for us. I've mentioned that
11 to legislators in the State, I've mentioned it to
12 the Commission before, but this is a good place for
13 us to do business. And if that, you know, leads to
14 expansion, then certainly we would be open to
15 opportunities.

16 **MR. GRIMES:** I --

17 **COMMISSIONER CLYBURN:** On the federal -- I'm
18 sorry, go ahead.

19 **MR. GRIMES:** I was just saying I'd like to add
20 that CenturyTel announced the acquisition of
21 Madison River Properties, which is located in
22 Mebane, North Carolina. That was closed in April
23 of '07. And I'll say that CenturyTel is constantly
24 looking at expansion and evaluating the landscape.

25 **COMMISSIONER CLYBURN:** I'm wondering, we hear

1 a lot about what's on the forefront now in terms of
2 the stimulus package and the President's emphasis
3 on broadband deployment, especially in rural areas.
4 I guess I'm wondering what you anticipate or what
5 you're lobbying for, if you're able to say, as it
6 relates to that. And I don't know that that
7 would --

8 **MR. PARROTT:** Well, what I would tell you --
9 you mentioned what are we lobbying for. What we're
10 lobbying for, as you might imagine, both for
11 Century Telephone and Embarq currently, as we
12 operate separately -- is, you know, we are excited
13 about the fact there is some discussion of
14 broadband monies being in the stimulus package. It
15 needs to be there. Our position is that that money
16 should be given to the states, and then the states
17 should be able to use those funds, and we hope
18 would use it in a public/private partnership with
19 industry to expand the footprint for broadband.
20 Our concern would be, if those federal monies go to
21 federal agencies, depending on who it goes to, you
22 may have seen some of the media reports that say
23 well, under one scenario -- and I can't remember if
24 it's House or Senate -- it would appear that the
25 benefactors of the money are going to be the large

1 Bell companies. That doesn't do a lot for us as
2 rural providers. There's another scenario that
3 says some of that money may go to RUS, which,
4 again, focuses on rural America. That wouldn't be
5 such a bad thing, but we really would like to see
6 the money go to the states, and we believe within
7 the company we've got a good public/private
8 partnership history, and you know, if we can
9 replicate those funds to private investment, we can
10 do more rather than less.

11 **COMMISSIONER CLYBURN:** I didn't know if my
12 resident lobbyist had any --

13 **MS. SWEITZER:** Well, I was just thinking, when
14 you asked that question, that we just had a
15 conversation about this topic yesterday on the
16 drive down here, and it just seems just such a
17 consequence that, you know, you had addressed that
18 issue. I know Embarq is working to, I guess, help
19 put forth our position at the federal level.

20 **MR. PARROTT:** Yeah, the main thing is that the
21 money needs to stay in the stimulus package for
22 broadband, and hopefully that's something we can
23 all agree on, and it's just a matter of how do you
24 dispense those funds, and our hope is it will be
25 done at the state level.

1 **VICE CHAIRMAN HOWARD:** Commissioner Mitchell.

2 **COMMISSIONER MITCHELL:** How you doing? Good
3 to have you all back. It's nice to see you again.

4 **MR. PARROTT:** Good to see you.

5 **COMMISSIONER MITCHELL:** You made one statement
6 there that I really like to hear. You said you
7 were going to concentrate more in the rural area,
8 and that's always been a part of my life here on
9 the Public Service Commission, the very rural
10 areas. What about -- and you talked about DSL, and
11 as far as your supposed expansion. What about the
12 extension of fiber-optic lines in your areas now,
13 and do you have plans to go beyond the boundaries
14 that you have extended those fiber-optic lines now
15 into some of the rural areas?

16 **MR. PARROTT:** This gets back -- this gets back
17 to the discussion of IPTV. IPTV would involve
18 taking fiber further in the network towards the
19 customer premise, and actually the good news here,
20 as part of this merger, is that CenturyTel was
21 actually ahead of us in terms of providing and
22 exploring that technology. You know, we're looking
23 to do a trial on it, but haven't done that yet.

24 New build-outs for us, you know, again, fiber
25 for new build-outs for us is absolutely essential,

1 you know, for future demand on advanced services.
2 As far as our current network, I'm pleased to say
3 that even though we don't have fiber to the home
4 across our territory here in South Carolina, we are
5 able with even the current technologies to provide
6 DSL and provide some advanced services. Our DSL
7 services, in a number of areas we're able to go all
8 the way up to 10 megabit service, which is
9 significant, and so we're excited about it.

10 The other thing is, we've started using in
11 South Carolina -- and I'm thinking South Carolina
12 may have been the first or one of the first states,
13 Cheryl -- where we started using what we're calling
14 a smart coil, a smart load coil. Used to, you'd
15 hear people say that on DSL, you can only go out
16 like about 18,000 feet from your switch, and with
17 the new technology you can go out, I think it's
18 close to 23,000 feet.

19 So, you know, we're adding about a mile to
20 that proposition, which is a positive. So
21 technology is changing every day, and we're trying
22 to keep up with that. So, it's a long answer, but
23 the fact is we will put fiber where it makes sense
24 and where it's meeting demand for the services.

25 **COMMISSIONER MITCHELL:** Do you see great

1 improvements on the extension of your fiber, just
2 as you mentioned there, as far as, I guess, the new
3 technology you just mentioned, as far as is the
4 public being just as receptive to that as they have
5 actually to fiber lines --

6 **MR. PARROTT:** Yes.

7 **COMMISSIONER MITCHELL:** -- and the coverage,
8 is it meaningful just as well, or is it a big
9 difference there as far as the actual service to
10 those customers?

11 **MR. PARROTT:** Yeah, the coverage is there, I
12 mean, we're working every day to try to expand that
13 footprint, you know. I mean, we're not at 100
14 percent. The good thing about what Kevin shared
15 with you, though, CenturyTel, if you look
16 nationally, CenturyTel actually has a higher
17 percentage capability for DSL than Embarq does, so
18 I think that's a good thing. But, no, the coverage
19 is there. If you look at the services people are
20 demanding and the bandwidth required to provide
21 that, and understanding how we provide video today
22 -- it's through the Dish Network -- then we can do
23 it with our existing technology. I mean, you can
24 get some significant bandwidth to meet the needs of
25 what people have today.

1 Now, when we get into video is where you're
2 going to see a greater demand for bandwidth, and
3 like IPTV, you're going to have to be pushing fiber
4 closer to the home, or to the home.

5 **COMMISSIONER MITCHELL:** And we always use the
6 numbers here in South Carolina, 94, 95 percent, and
7 the other 6 or 7 percent. So you see that 7
8 percent decreasing somewhat?

9 **MR. PARROTT:** You mean on a state average?

10 **COMMISSIONER MITCHELL:** Right, right. Yeah.
11 You see that decreasing?

12 **MR. PARROTT:** I see it decreasing, and my hope
13 would be -- and this ties back to Commissioner
14 Clyburn's question that this is why it's needed in
15 the stimulus package. We'd love to see that gap
16 close.

17 **COMMISSIONER MITCHELL:** Thank you. Thank you,
18 very much.

19 **VICE CHAIRMAN HOWARD:** Commissioner Whitfield.

20 **COMMISSIONER WHITFIELD:** Thank you, Mr.
21 Chairman. I have one quick question about the
22 merger, and I guess more about the corporate
23 structure than anything. And I guess some of my
24 questions center around Cajun Acquisition Company.
25 I think you had jokingly said to Mr. Grimes we

1 could ask him about that name. I'm not concerned
2 about the name as much as, I guess, why it was used
3 to complete the merger, and I guess at the end of
4 the day CenturyTel ends up being the new parent
5 company. Could you tell me a little bit more about
6 Cajun Acquisition and what its history was, and how
7 at the end of the day we end up having CenturyTel,
8 I guess, as the parent?

9 **MR. PARROTT:** You want to speak to the --

10 **MR. GRIMES:** I'll try. As I understand it,
11 Cajun Acquisition was created for this purpose.

12 **COMMISSIONER WHITFIELD:** Okay, that's kind of
13 what I was thinking.

14 **MR. GRIMES:** Strictly for the merger with
15 Embarq. It is a wholly-owned subsidiary currently
16 of CenturyTel, and it will -- it will go away once
17 the merger is complete.

18 **MR. PARROTT:** Understand that this is also a
19 tax-free transaction, which I believe also plays
20 into why -- the need to create that separate sub
21 for this purpose. As Kevin said, and it was my
22 understanding, too, that Cajun Acquisition was set
23 up to handle this transaction, and as a result I
24 think it's viewed more like a restructuring of
25 those two entities coming together, Cajun and

1 Embarq Corporation, and it is viewed as a tax-free
2 transaction much like the spinoff of Embarq was,
3 from Sprint.

4 **COMMISSIONER WHITFIELD:** Okay, that answers my
5 question. That's what I thought.

6 **MR. PARROTT:** Okay.

7 **VICE CHAIRMAN HOWARD:** Any other questions,
8 Commissioners?

9 [No response]

10 **VICE CHAIRMAN HOWARD:** ORS, do you have any
11 questions? Ms. Hammonds?

12 **MS. HAMMONDS:** No, thank you, Commissioner.
13 Thank you.

14 **VICE CHAIRMAN HOWARD:** Okay. I'd like to take
15 this opportunity to thank each of you for coming.
16 Mr. Parrott, Mr. Grimes, and Ms. Masterson, thank
17 you, very much. We see Mr. Elliott here
18 occasionally, and Ms. Sweitzer here a good bit at
19 our meetings, so we're glad to see them back again.
20 Thank you, very much, and if there's no other
21 business, this briefing will be adjourned. Thank
22 you.

23 [WHEREUPON, at 10:40 a.m., the
24 proceedings in the above-entitled matter
25 were concluded.]